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National Association of Purchasing Management

Report On Business®

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Index Slips to 56.2%

Export Growth Weakens

Price Increase Rate Lower

Analysis by the National Association of Purchasing Management Business Survey Committee; chair, Robert J. Bretz, C.P.M., director of materials management, Pitney Bowes, Inc.

August Report

The economy continued to expand in August but at a slower pace than in the last two months, say the nation's purchasing executives in their latest ***Report on Business.***

Although **Production** continued to grow, the rate of growth was less than that of the previous two months. The rate of growth in **New Orders** also slipped from the rapid pace registered in June and July, but still remains strong. New export orders, largely responsible for the vigorous growth in new orders, continued to advance, but at a decidedly slower pace. Of those members who export, 20% reported higher export orders, down from 39% in July and the 37.8% previous seven month average for 1988. Only 4% said their export orders were worse, barely more than the 3% noted in July. **Vendor Deliveries** remained slow; but for the second consecutive month the rate of slowing lessened. **Employment** increased in August for the third consecutive month, aided again by temporary summer employment. **Inventories** declined considerably in August after the significant increase reported by purchasers in July. **Prices** increased for the 23rd consecutive month but at the lowest rate of growth since March.

The **Report** was issued today by Robert J. Bretz, C.P.M., chairman of the National Association of Purchasing Management's Business Survey Committee, and director of materials management at Pitney Bowes, Inc. Said Bretz, "The intense rate of growth in new export orders cooled in August. Although the economy continued to grow in August, it did so with less vigor than the past two months. Nevertheless, new orders are still at a high enough level to all but assure robust economic growth for the third quarter."

PURCHASING MANAGERS' INDEX

The ***Purchasing Managers' Index*** slipped to 56.2% in August, down from 59% in July and the second consecutive month's decline. Nevertheless, the 56.2% is the third highest index reported in 1988 and represents the 25th consecutive month this leading indicator has exceeded 50%. Bretz said, "The 56.2% registered in August brings the average for the first eight months of 1988 to 56.3%. Past experience indicates that, if this average were to continue for the remainder of 1988 it would be consistent with real GNP growth of about 3.7%, unchanged from last month."

Purchasing Managers' Index

August	56.2	April	54.9
July	59.0	March	53.3
June	59.3	February	54.9
May	55.1	January	57.4

Data and method of presentation

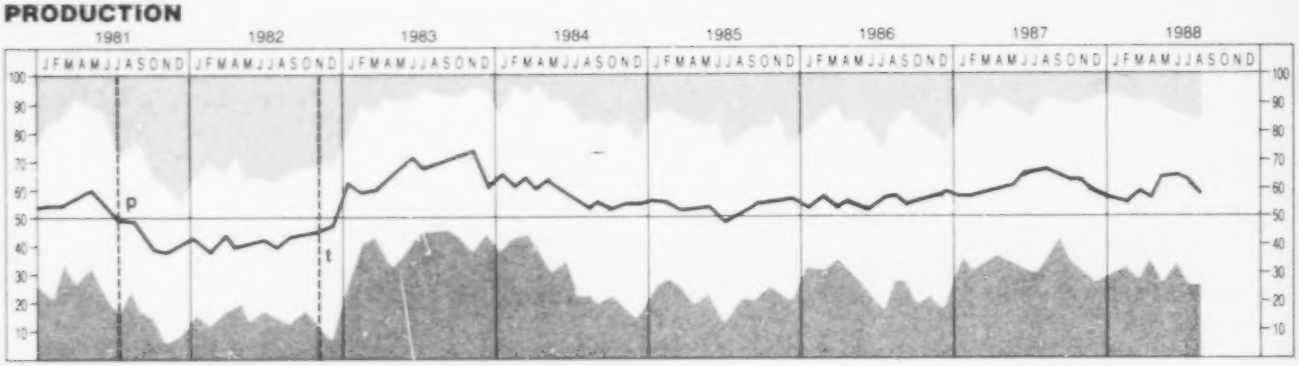
The *Report on Business* is based on data compiled from monthly replies to questions asked of purchasing executives in over 250 industrial companies. Membership of the Business Survey Committee is diversified geographically, based on value added by state, and by Standard Industrial Classification (SIC) category, based on each industry's contribution to Gross National Product (GNP). Twenty-one industries in 50 states are represented on the committee.

Survey responses reflect the change, if any, in the current month compared to the previous month. For each of the indicators measured (new orders, production, vendor deliveries, inventories, employment and prices), this report shows the percent reporting each response, the net difference between the number of responses in the positive economic direction (higher, better, and slower for vendor deliveries) and the negative economic direction (lower, worse and faster for vendor deliveries), and the diffusion index.

Responses are raw data and are never changed. The diffusion index includes the percent of positive responses plus one-half of those responding the same (considered positive). The resulting single index number is then seasonally adjusted to allow for the effects of repetitive intra-year variations resulting primarily from normal differences in weather conditions, various institutional arrangements and differences attributable to non-moveable holidays. All seasonal adjustment factors are supplied by the U.S. Department of Commerce and are subject annually to relatively minor changes when conditions warrant them. The Purchasing Managers' Index is a composite index based on the seasonally adjusted diffusion indexes for five of the indicators (new orders, production, vendor deliveries, inventories and employment) with varying weights applied.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change and the scope of change. An index reading above 50% indicates that the economy is generally expanding; below 50% that the economy is generally declining. The distance from 50% is indicative of the strength of the expansion or decline.

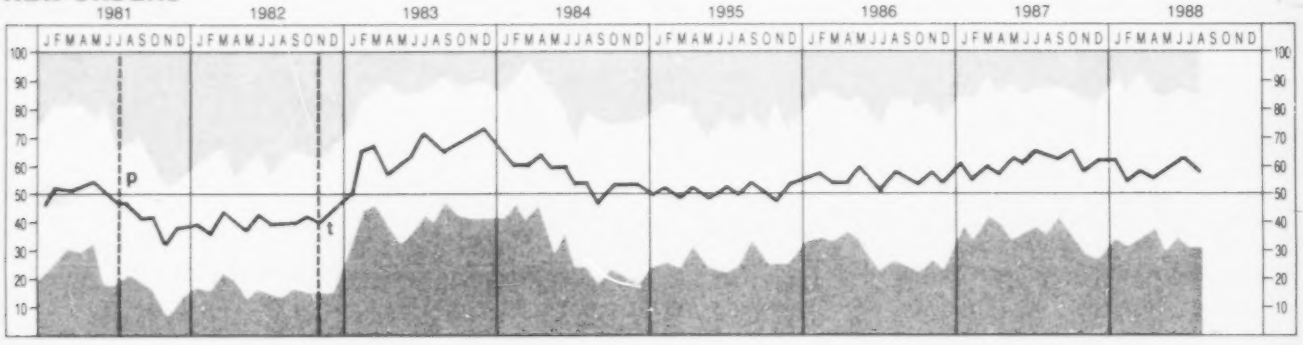
PRODUCTION



August marked the 25th consecutive month that production has expanded, when taking normal seasonal variations into consideration. The index (58.2%) is the fourth highest registered this year, although significantly lower than June (63.1%) and July (62.7%).

Production	%Better	%Same	%Worse	Net	Index
August	26	60	14	+12	58.2
July	25	62	13	+12	62.7
June	35	53	12	+23	63.1
May	27	62	11	+16	56.9

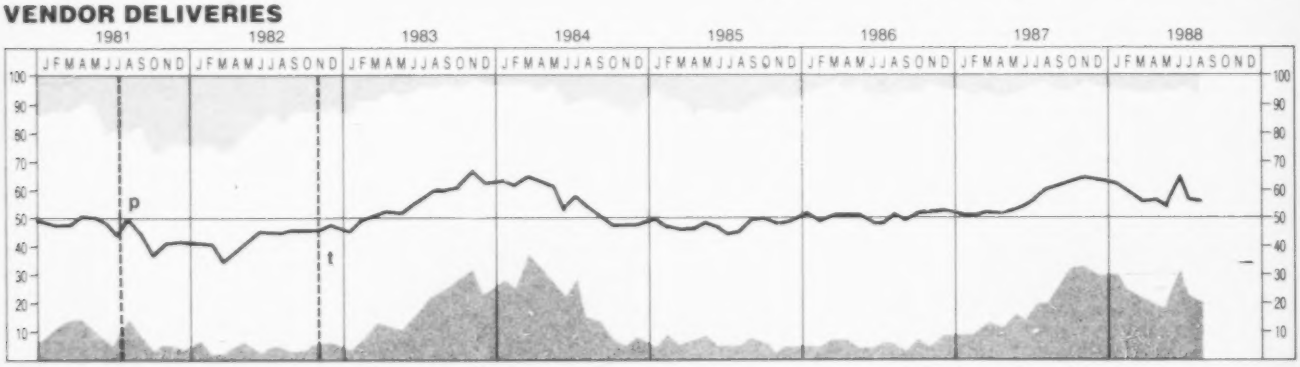
NEW ORDERS



New orders expanded in August for the 39th consecutive month, after considering normal seasonal variations. Although the rate of growth is somewhat slower than June or July, the index at 59.9% is the fourth highest reached in 1988 and signals continued production growth to end the third quarter.

New Orders	%Better	%Same	%Worse	Net	Index
August	31	54	15	+16	59.9
July	31	57	12	+19	62.1
June	34	54	12	+22	62.7
May	30	54	16	+14	58.4

VENDOR DELIVERIES



Purchasers continued to report slower vendor deliveries. The August index (58.1%) marks the 23rd consecutive month this leading indicator has exceeded 50%. Nevertheless, the rate of slowing in deliveries is less than in June or July and the number of members reporting faster deliveries (7%) is the most since May 1987 (also 7%).

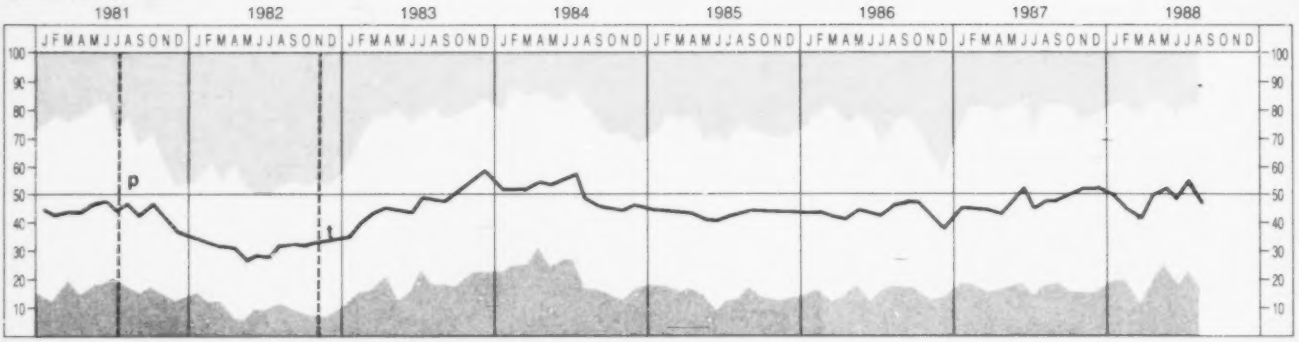
Vendor Deliveries	%Slower	%Same	%Faster	Net	Index
August	20	73	7	−13	58.1
July	21	75	4	−17	58.8
June	32	63	5	−27	65.5
May	19	76	5	−14	55.9

IN SHORT SUPPLY:

Aluminum (11th consecutive month), steel (16th time in 18 months), stainless steel (eighth consecutive month), steel tubing, printing paper (sixth consecutive month), bleached paperboard (second consecutive month), caustic soda and soda ash (15th consecutive month; used heavily in papermaking, petroleum refining and soap-making), polyethylene (fourth consecutive month; used heavily in making packaging materials and paper coatings), plastic resins (fourth consecutive month), ethylene oxide (sixth consecutive month; used in chemical synthesis, sterilization and fumigation), ethylene glycol (third consecutive month; used heavily in making antifreeze, brake fluid, plastic paint and ink), antifreeze, ethylene (fifth consecutive month; used heavily in making ethylene oxide, plastic resins and glycols), ethylene derivatives (third consecutive month), phenol (fifth consecutive month; used heavily in making phenolic resins), methyl ethyl ketone — MEK (fifth consecutive month; used heavily as a chemical solvent in surface coatings and in making resins), titanium dioxide (13th consecutive month; a lead-free pigment used heavily as a whitener in coatings, paints, paper and other industrial applications) and bearings.

NOTE: three major ethylene and ethylene-derivative plants previously closed because of fires, are now back in production.

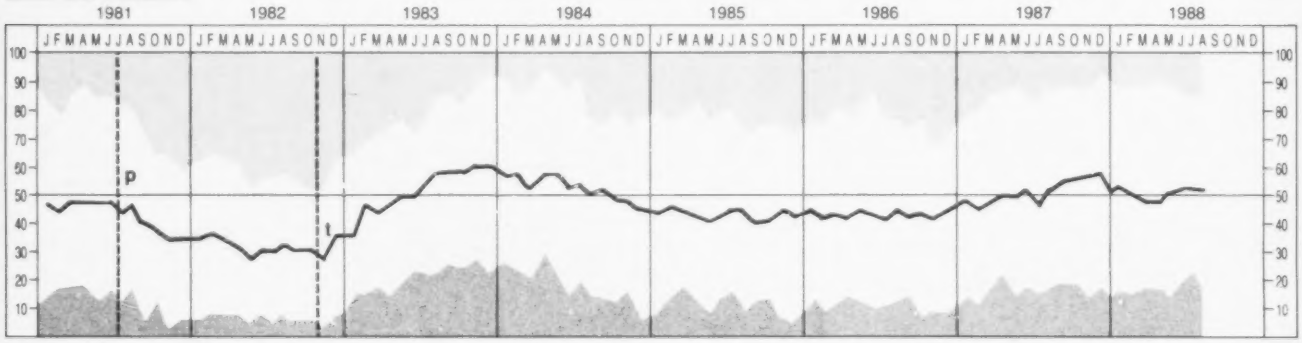
INVENTORIES



Inventories declined in August after rising significantly in July, when considering normal seasonal variations. The decline in the index to 48.6% from 55.1% in July reflects the determination of purchasers to balance inventory with production demands.

Inventories	%Higher	%Same	%Lower	Net	Index
August	18	64	18	0	48.6
July	22	60	18	+ 4	55.1
June	18	60	22	− 4	48.5
May	25	58	17	+ 8	52.1

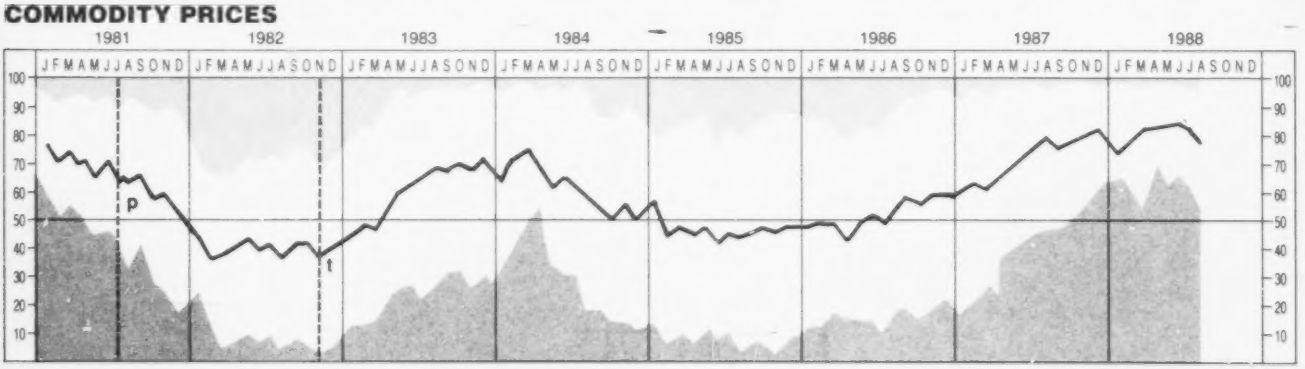
EMPLOYMENT



Employment increased in August, when taking normal seasonal variations into consideration. This is the third consecutive month's increase after registering declines in the three previous months. The rate of increase slowed somewhat in August to an index of 50.7% from 51.7% in July.

Employment	%Higher	%Same	%Lower	Net	Index
August	16	68	16	0	50.7
July	19	69	12	+ 7	51.7
June	20	64	16	+ 4	50.1
May	14	75	11	+ 3	48.5

COMMODITY PRICES



Prices increased for the 25th consecutive month when considering normal seasonal variations. Nevertheless, there is some glimmer of hope that the rate of growth in price increases may be declining. The index fell to 78.7% in August from 81.1% in July and is the lowest since March (74.1%). Price increases in metals appear to be abating but drought-related increases seem to be taking their place.

Prices	%Higher	%Same	%Lower	Net	Index
August	55	40	5	+ 50	78.7
July	63	35	2	+ 61	81.1
June	66	32	2	+ 64	82.4
May	64	35	1	+ 63	82.0

UP IN PRICE:

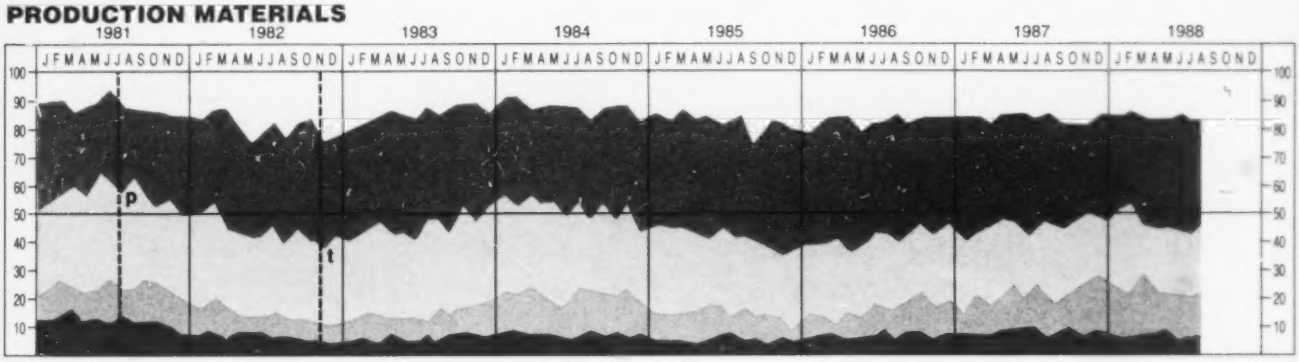
Corrugated shipping containers (28th time in 29 months), folding cartons, printing paper (17th time in 20 months), paper products (seventh consecutive month), caustic soda (21st consecutive month; used heavily in paper-making, petroleum refining and soap-making), soda ash, aluminum (19th consecutive month), steel (23rd time in 24 months), stainless steel (eighth consecutive month), steel products (10th consecutive month), zinc (seventh time in eight months; used heavily in metal alloys and as a protective coating for metals), castings, polyethylene (14th time in 15 months; used heavily in making packaging materials and paper coatings), polypropylene (third time in four months; used in making fabrics, carpets and yarns), plastic resins (14th time in 15 months), propylene glycol (second consecutive month; used heavily in making plastic resins, as a nontoxic antifreeze in foods, a solvent for pharaceuticals and a substitute for ethylene glycol), plastic products (15th time in 16 months), ethylene glycol (second consecutive month; used heavily in making antifreeze, brake fluid, plastic paint and ink), ethylene (12th time in 13 months; used heavily in making ethylene oxide and plastic resins), ethylene derivatives (sixth time in seven months), antifreeze (third consecutive month), miscellaneous chemicals (11th consecutive month), grain related foods, corn starch, sugar, sweetners (second consecutive month; used heavily in beverages and processed foods), vegatable oils (used heavily in processed foods), electric motors (second consecutive month) and bearings (second consecutive month).

DOWN IN PRICE:

Fuel Oil (eighth time in nine months), cotton fabric, black pepper and copper.

BUYING POLICY

PRODUCTION MATERIALS



Lead times lengthened somewhat for production materials, reflecting the continued slowing in vendor deliveries in August. Lead times of 30 days or less for production materials were reported by 51% of purchasers, down from 56% in July. Lead times for capital expenditures were little-changed with 55% of members reporting lead times of six months and longer, down only slightly from 56% last month. Lead times for maintenance, repair and operating (MRO) supplies shortened somewhat as the number reporting buying hand-to-mouth increased to 40% from 35% in July.

Percent Reporting

Production Materials	Hand to Mouth	30 Days	60 Days	90 Days	6 Mos. and Longer
August	16	35	27	16	6
July	16	40	23	15	6
June	14	41	22	18	5
May	15	41	22	14	8

Capital Expenditures	Hand to Mouth	30 Days	60 Days	90 Days	6 Mos. and Longer
August	12	5	12	16	55
July	8	5	13	18	56
June	10	7	10	24	49
May	9	6	11	19	55

MRO Supplies	Hand to Mouth	30 Days	60 Days	90 Days	6 Mos. and Longer
August	40	45	11	4	0
July	35	48	15	2	0
June	36	46	15	2	1
May	38	49	10	3	0

Commodity Report
August, 1988

Energy
Prepared by the NAPM Energy Committee. Chair: Howard T. Perley, C.P.M., International Paper Company, Memphis, TN.

Petroleum: Crude oil refineries are operating at approximately 88% of capacity, with a good balance of supply and demand, causing prices to remain stable.

Natural Gas: The projection is for a decrease in the recent surplus and a return to supply demand balance within a year or two, signalling the end of severely depressed prices.

Electric Power: The FERC is considering changes in regulations that would encourage utilities to use competitive bidding to allow independent power producers an opportunity to meet their extra power needs. If problems regarding access to the electricity transmission grid are resolved, this could result in lower electricity rates.

Coal:
Record low water conditions on the Mississippi River have resulted in extensive delays of incoming coal shipments, and in some cases increased costs. Although the impact on coal pricing will probably be temporary, loss of revenues by the barge companies could result in significant rate increases in the coming months.

New Technology:
The government is funding research on a superconducting magnetic energy storage system (SMES). The objective of the project is to develop a system capable of storing electricity at efficiencies greater than 90%, which is about 30% better than current technology.

Steel
Prepared by the NAPM Steel Buyers Group. Norris Caudell, Caterpillar, Inc.

Domestic steel production has slackened slightly to a rate of 1.8 million tons per week, an 86% capability utilization. For the year, we expect USA steel production of 90—93 million tons and shipments of 76–78 million tons. Imports will total 20 million tons while exports will reach 1.6 million tons, 40% above 1987. The projection for 1989 is for a slight slowdown from 1988, but not a recession. This, coupled with the ending of import quotas, should mean shorter leadtimes, moderation of price pressures and an easing of spot shortages for the steel buyer.

Since 1982, the U.S. steel industry has cut capacity by 40 million tons, reduced employment 60% and increased productivity 40%. Today, with costs 40% lower, the industry is capable of competing with foreign mills in the domestic market and even in overseas markets. Hats off to our steel industry for a job well done!

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The next issue of *REPORT ON BUSINESS* will be available October 3.